

July 2004



North Dakota REV-E-NEWS

From Pam Sharp, Director Office of Management and Budget 600 E. Blvd. Ave. , Dept 110 - Bismarck, ND 58505-0400

National and local economic indicators continue to give encouraging signs of an expanding economy. *Economy.com*, the econometric forecasting firm used by the state, reports that national economic growth is being supported by "consumer spending, robust homebuilding, and improving business investment." They also note "the entire global economy appears on the verge of a synchronized rebound."

Energy prices continue at or near record prices. *Economy.com* reports that by next summer, oil prices should fall to around \$30 per barrel, compared to the current level of around \$40 per barrel. Terrorism concerns have reportedly added at least \$5 to the current per barrel price. This concern is expected to diminish in the near future. In addition, global energy demand is expected to subside and global energy supplies are anticipated to increase, putting additional downward pressures on price.

In North Dakota, strong sales and use tax collections and motor vehicle excise tax collections indicate growing consumer spending and continually improving consumer confidence. Contributing to that confidence is the state's exceptionally low unemployment rate. A recent report from the United States Department of Labor, Bureau of Labor Statistics, indicates that in May 2004,

North Dakota had the second lowest seasonally adjusted unemployment rate in the nation at 3.2 percent.

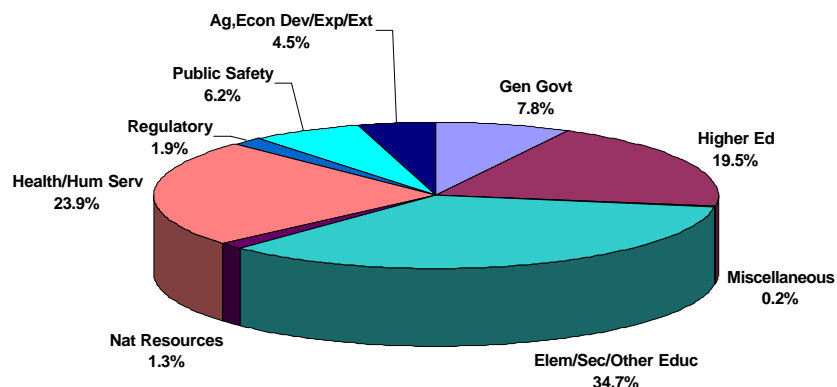
June marks the midpoint of the biennium and the end of fiscal year 2004. State economic performance has been encouragingly strong. State revenues for fiscal year 2004 have exceeded the legislative forecast by \$27.3 million, or 3.1 percent. Revenues have exceeded the same period two years ago by \$105.0 million, or 13.2 percent.

Oil Activity

May oil production of 83,222 barrels per day was up slightly from April's production of 82,970 barrels per day. Oil prices remain high. Prices averaged \$31 in April and nearly \$35 in May. Current prices are around \$38 per barrel.

The rig count is relatively flat, limited by rig and crew availability. Drilling permits have decreased sharply from 33 in April to 7 in May. However, leasing activity is extremely strong

FY 2004 General Fund Expenditures \$896 Million



STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2003-05 BIENNIUM
June 2004

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	March 2003 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>	March 2003 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	22,570,000	30,612,817	8,042,817	35.6%	320,896,000	338,942,963	18,046,963	5.6%
Motor Vehicle Excise Tax	5,021,000	5,991,725	970,725	19.3%	62,279,000	64,509,758	2,230,758	3.6%
Individual Income Tax	10,199,000	10,655,174	456,174	4.5%	212,577,000	212,892,523	315,523	0.1%
Corporate Income Tax	9,962,000	7,705,782	(2,256,218)	-22.6%	45,889,000	40,257,083	(5,631,917)	-12.3%
Insurance Premium Tax	1,250,000	2,600,943	1,350,943	108.1%	27,412,000	28,276,368	864,368	3.2%
Financial Insitutions Tax	28,000	8,181	(19,819)	-70.8%	2,600,000	2,646,071	46,071	1.8%
Oil & Gas Production Tax	1,847,000	3,832,286	1,985,286	107.5%	22,149,000	28,256,440	6,107,440	27.6%
Gaming Tax	200,000	416,023	216,023	108.0%	11,600,000	11,422,297	(177,703)	-1.5%
Lottery	280,000	1,431,000	1,151,000	411.1%	280,000	1,431,000	1,151,000	411.1%
Interest Income	2,071,000	1,551,511	(519,489)	-25.1%	6,002,000	2,332,988	(3,669,012)	-61.1%
Oil Extraction Tax	1,252,000	1,828,043	576,043	46.0%	15,015,000	15,291,025	276,025	1.8%
Cigarette & Tobacco Tax	1,591,000	1,498,417	(92,583)	-5.8%	18,629,000	19,775,411	1,146,411	6.2%
Departmental Collections	1,900,000	2,538,708	638,708	33.6%	28,276,648	32,587,547	4,310,899	15.2%
Wholesale Liquor Tax	557,000	497,137	(59,863)	-10.7%	5,774,000	5,909,958	135,958	2.4%
Coal Conversion Tax	2,009,000	2,072,775	63,775	3.2%	23,536,000	24,432,816	896,816	3.8%
Mineral Leasing Fees	(175,000)	32,040	207,040	0.0%	2,415,000	3,385,323	970,323	40.2%
Bank of North Dakota-Transfer	30,000,000	30,000,000	-	0.0%	30,000,000	30,000,000	-	0.0%
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					698,100	698,100	-	0.0%
Other Transfers	18,000,000	18,006,458	6,458	0.0%	36,410,000	36,647,634	237,634	0.7%
Total	108,562,000	121,279,020	12,717,020	11.7%	872,437,748	899,695,305	27,257,558	3.1%
Federal Fiscal Relief Payments						50,000,000	50,000,000	100.0%
Federal Fiscal Relief -Medicaid FMAP						6,456,581	6,456,581	100.0%
Total Revenues and Transfers	108,562,000	121,279,020	12,717,020	11.7%	872,437,748	956,151,886	83,714,138	9.6%

COMPARISON TO PREVIOUS BIENNIUM REVENUES
2003-05 BIENNIUM
June 2004

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	June 2002	June 2004	Variance	Percent	2001-03	2003-05	Variance	Percent
Sales Tax	19,992,585	30,612,817	10,620,231	53.1%	308,664,333	338,942,963	30,278,630	9.8%
Motor Vehicle Excise Tax	4,586,419	5,991,725	1,405,307	30.6%	60,679,675	64,509,758	3,830,084	6.3%
Individual Income Tax	8,124,736	10,655,174	2,530,437	31.1%	196,757,091	212,892,523	16,135,432	8.2%
Corporate Income Tax	6,533,325	7,705,782	1,172,457	17.9%	41,374,297	40,257,083	(1,117,214)	-2.7%
Insurance Premium Tax	1,017,191	2,600,943	1,583,752	155.7%	23,347,204	28,276,368	4,929,164	21.1%
Financial Insitutions Tax	(1,012,798)	8,181	1,020,979	-100.8%	2,565,548	2,646,071	80,523	3.1%
Oil & Gas Production Tax	2,277,878	3,832,286	1,554,408	68.2%	20,530,727	28,256,440	7,725,712	37.6%
Gaming Tax	983,346	416,023	(567,324)	-57.7%	13,737,222	11,422,297	(2,314,925)	-16.9%
Lottery	-	1,431,000	1,431,000	100.0%	-	1,431,000	1,431,000	100.0%
Interest Income	2,269,918	1,551,511	(718,406)	-31.6%	5,529,692	2,332,988	(3,196,703)	-57.8%
Oil Extraction Tax	882,099	1,828,043	945,944	107.2%	10,466,737	15,291,025	4,824,288	46.1%
Cigarette & Tobacco Tax	1,689,535	1,498,417	(191,118)	-11.3%	20,167,582	19,775,411	(392,171)	-1.9%
Departmental Collections	1,952,780	2,538,708	585,927	30.0%	28,311,891	32,587,547	4,275,657	15.1%
Wholesale Liquor Tax	498,389	497,137	(1,251)	-0.3%	5,493,782	5,909,958	416,176	7.6%
Coal Conversion Tax	2,010,681	2,072,775	62,095	3.1%	23,328,502	24,432,816	1,104,315	4.7%
Mineral Leasing Fees	250,777	32,040	(218,737)	-87.2%	2,979,585	3,385,323	405,739	13.6%
Bank of North Dakota-Transfer	15,000,000	30,000,000	15,000,000	100.0%	30,000,000	30,000,000	-	0.0%
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					681,696	698,100	16,404	2.4%
Other Transfers	14,925	18,006,458	17,991,533	120547.6%	85,309	36,647,634	36,562,324	100.0%
Total	67,071,787	121,279,020	54,207,233	80.8%	794,700,874	899,695,305	104,994,432	13.2%
Federal Fiscal Relief Payments						50,000,000	50,000,000	100.0%
Federal Fiscal Relief - Medicaid FMAP						6,456,581	6,456,581	100.0%
Total Revenues and Transfers	67,071,787	121,279,020	54,207,233	80.8%	794,700,874	956,151,886	161,451,013	20.3%

Revenue Variances

June revenues exceeded the legislative forecast by over \$12.7 million, or 11.7 percent, not considering the impact of federal fiscal relief payments received by the state and deposited in the general fund.

The majority of the monthly variance relates to sales tax, which exceeded the monthly forecast by over \$8 million, or 35.6 percent. Biennium to date collections exceed the forecast by over \$18 million, a positive sign that consumer confidence remains strong in North Dakota.

Another reflection of the state's strong economy and high consumer confidence - motor vehicle excise tax collections continue to exceed the legislative forecast. Monthly collections exceeded the forecast by nearly \$1 million; biennium to date collections are \$2.2 million higher than forecasted.

Corporate income tax collections fell short of forecast by \$2.3 million. Biennium to date collections are \$5.6 million less than reflected in the legislative forecast. Two factors negatively affecting this tax type are federal tax changes that have reduced taxable corporate income and a continuing shift in business structure. North Dakota businesses are following the national trend of conversion from corporate to limited liability organizational structure, resulting in individual, rather than corporate, tax liability.

Insurance premium tax collections exceeded the forecast by \$1.4 million; biennium to date collections have exceeded projections by over \$800,000. A portion of the monthly variance relates to the correction of a timing issue of approximately \$950,000 reported last month.

Record high oil prices continue to have a positive impact on state oil tax collections. Oil taxes exceeded the legislative forecast by over \$2.5 million for the month, over \$6.3 million for the biennium.

Lottery performance has exceeded expectations for the first year of the biennium. The legislative forecast assumed a conservative \$280,000 would be transferred to the general fund in June 2004 to reflect lottery collections in excess of expenses for the first year of the biennium. The actual transfer was over \$1.4 million, more than five times the projected amount.

Comments or Questions???

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